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PEAT MARWICK

ORGANIZATION STRUCTURE ALTERNATIVES FOR AN INDEPENDENT NORTHWEST TERRITORIES ELECTRIC UTILITY

June 26/86

Northwest Territories Energy, Mines and Resources Secretariat

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I - EXECUTIVE SUMMARY

This Chapter presents our conclusions and recommendations for the management, operation and control of the electrical utility in the Northwest Territories (GNWT). We summarize the key areas of our report in the following paragraphs under the headings of Study Purpose, Documentation Sources, Requirements and Evaluation, Recommendation, Action Plan and Timing. Our detailed comments, findings and conclusions are covered in Chapters II to VI in the attached report.

STUDY PURPOSE

The purpose of this study, Project A, is to:

> "assess the options of a fully integrated Utility, owned and operated by the GNWT, in comparison to a similar ownership arrangement with operation contracted to Northland Utilities (NWT) Limited, (NUL)".

The results of our study culminate in a recommendation to the Secretary of the Executive Council and the Minister, Energy, Mines and Resources for the preferred organization structure.

DOCUMENTATION SOURCES

Our conclusions are based on information provided by the Ministry of Energy, Mines and Resources, GNWT; the June 1985 National Energy Board (NEB) findings; previous Peat Marwick studies; and questions asked to NUL and the Northern Canada Power Commission, (NCPC) via the office of the Energy Secretariat.

In the course of our work cost estimates have been prepared on the basis of assumptions which have been described in our report. It is possible

that some of the assumptions underlying our projections may not materialize. Nonetheless, we have applied our professional judgement in making assumptions, such that these constitute an understandable basis for estimates and projections. Beyond this, to the extent that certain assumptions do not materialize, then to that extent you will appreciate that our estimates and projections of achievable results will vary.

REQUIREMENTS AND EVALUATION

To objectively evaluate the two alternatives, nine essential operating requirements were identified for the utility. These requirements are presented in Exhibit 1, opposite, and are defined in Chapter II of this report.

Exhibit 1 presents the evaluation of the two alternatives and compares each to the nine essential operating requirements. Both met a number of the requirements identified.

RECOMMENDATION

The GNWT holding company/NUL utility management alternative has significant benefits. This alternative is recommended for the following main reasons:

- Employment is provided in the North with the least burden to GNWT ratepayers.

- NUL displays a proven ability to efficiently manage utilities North of 60° and has the greatest potential to attract the skills required, provide proven training programs and offer career development opportunities through their affiliated utilities.

EXHIBIT 1

EVALUATION OF ALTERNATIVES

Operating Criteria	Full Service Utility	Holding Company/Contractor
1. CLEAR MANDATE	- Yes, managed and operated in the NWT	- Yes, managed and operated in the NWT
2. EMPLOYMENT	- 80-85 direct, 35 "spin-off", 110-115 total jobs, concentrated near head office	- 39-44 direct, 16 indirect, 55-60 total jobs
	- Current NCPC employees resident in the NWT will be offered employment	- Current NCPC employees resident in the NWT will be offered employment
3. UNINTERRUPTED POWER	- Retain current service levels	- Incentive to maintain and, where possible, improve service
		- Ready access to expertise through parent company
4. AFFORDABLE POWER	- Subsidize rates, where necessary	- Subsidize rates, where necessary
		- Projected cost savings of $1.5 million in the first year
5. QUALITY OF PERSONNEL	- Less opportunity to attract skilled labour due to limited career development opportunities	- Corporate personnel resources can attract skilled people required: o Career development opportunities o Training
6. OPERATING EFFICIENCY	- Higher cost alternative: transition costs $4.0 million, initial operating costs $6.2 million	- Least cost alternative: transition costs $2.9 million, initial operating costs $4.3 million
		- Proven ability to efficiently manage utilities

EXHIBIT 1-1

EVALUATION OF ALTERNATIVES

Operating Criteria	Full Service Utility	Holding Company/Contractor
7. REGULATION	- Accountable to the PUB of the NWT	- Accountable to the PUB of the NWT - An established track record with PUB
8. BORROWING CAPACITY	- Costs of Funds may increase unless guaranteed by the Federal Government	- Potential for increased borrowing capacity through parent company of NUL in future, should NUL obtain a minority ownership position
9. ORGANIZATIONAL FLEXIBILITY	- Less flexible to change if an east and west division of the NWT occurs	- Provides flexibility to change if an east and west division of the NWT occurs

- NUL has ready access to management expertise through affiliated companies, to provide a smooth transition for effective operations, planning and management of the utility.

- The Holding Company/Contractor structure provides a better opportunity to move towards affordable power through operating efficiencies, with a projected cost savings of $1.5 million in the initial year, compared to the test year presented in the June, 1985 NEB report.

ACTION PLAN AND TIMING

A smooth transition and successful transfer of operations and management of current NCPC activities is essential. The following action plan and suggested timing indicate the main tasks to be accomplished. Exhibit 2, opposite, identifies by major area of interest, the tasks known at this time which need to be accomplished for transition on March 1, 1987. Tasks requiring immediate attention include:

1. Ministerial decision on the organization structure should be made as soon as possible, with a public announcement targetted for March 31, 1986.

2. Establish a base mandate for the utility. This will be initiated in February, 1986, allowing for finalized presentation in June, 1986. The base mandate, prepared at this time, provides direction for implementation.

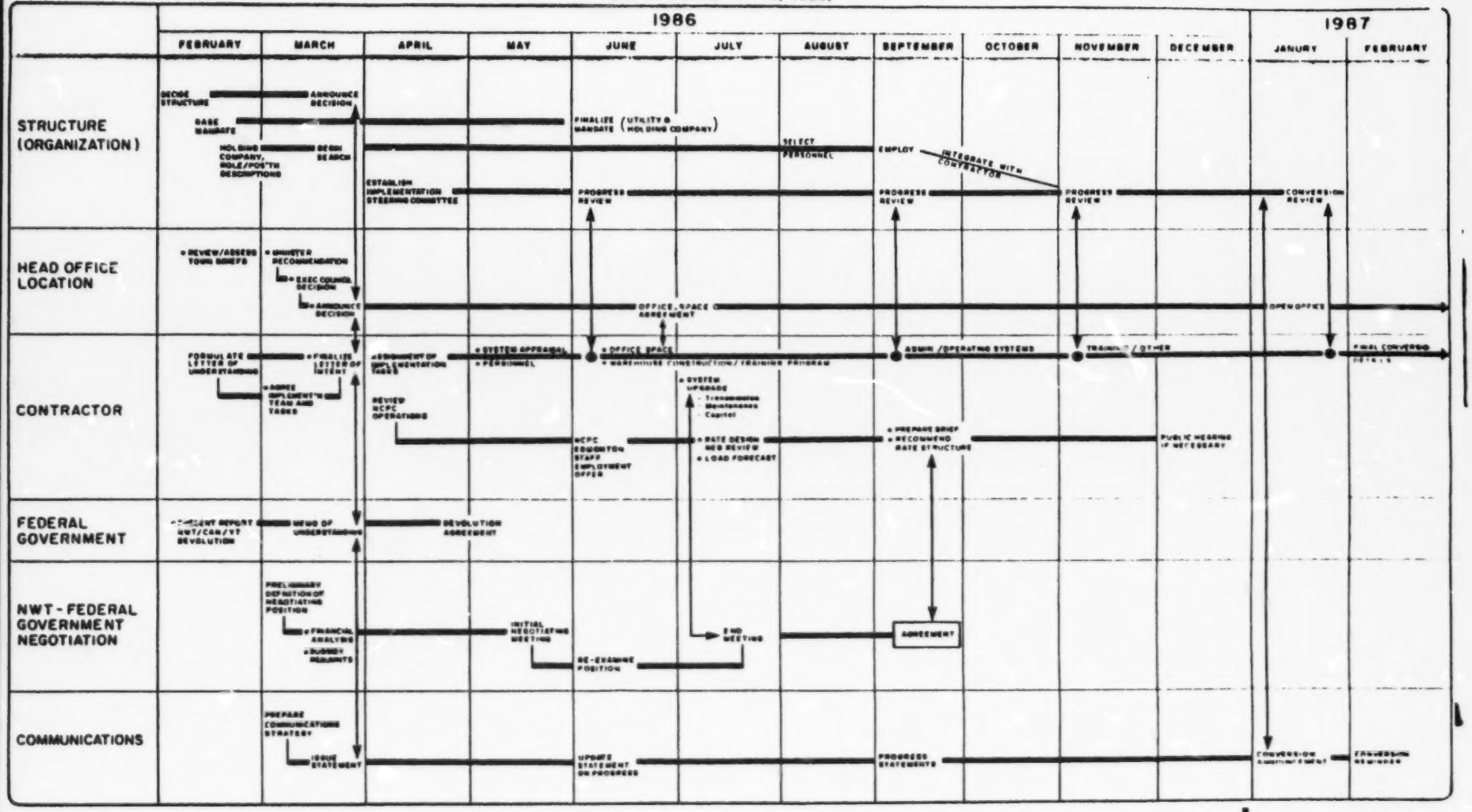
3. Define the holding company role, responsibilities and authorities, together with position descriptions for Holding Company person-

EXHIBIT 2

GOVERNMENT OF NORTH WEST TERRITORIES

ELECTRIC UTILITY CONVERSION TASKS

(AS OF FEBRUARY 15, 1986)



II - OPERATING REQUIREMENTS FOR THE NWT ENERGY CORPORATION

The following nine requirements are those against which organizational structure alternatives will be evaluated. The requirements, we believe, identify those most important to the Government of the Northwest Territories (GNWT) "Energy Corporation" (Electric utility) in the short and long term. The following requirements take into consideration that transition will occur March 31, 1987.

CLEAR MANDATE

A clear mandate is a fundamental requirement. There must be a clear understanding of the role and responsibilities of the utility in order to facilitate decision-making at all levels of the organization. It effects planning, financing, resource allocation and the provision of service.

An understanding of the role, responsibilities and relationships with the public, the regulator, and the government promotes acceptance of the utilities' actions. Within the mandate, it is understood that the electric utility will be controlled and operated in the NWT as an independent, self-sufficient entity.

EMPLOYMENT

The utility should be sensitive to employment and job creation opportunities in the Northwest Territories, (NWT). The location of the head office and regional operating units has a direct impact and a secondary benefit to employment in the NWT. It is estimated that for each 10 direct jobs created, 4 indirect and induced jobs could be created as a result.* This

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* This factor is an estimate based on a previous study performed by us. This study concluded that for a manufacturing company located in a larger but remote community in Alberta, 6 additional jobs were created for every 10 direct jobs. Since the jobs created in the NWT are non-manufacturing and the community is smaller, this factor was reduced to 4 from 6.

secondary job creation results from companies that service the head office needs (such as office supplies and services) and from the recirculation of employee earnings in the local economy for purchases of items such as housing and food.

UNINTERRUPTED POWER

An overriding objective of the establishment and management of an independent electric utility located in the NWT is to maintain, and where possible, improve the electric energy service to industry, commerce and the residents of the NWT.

Equipment must be properly maintained and adequate backup facilities available to ensure service is reliable in all territorial communities. To accomplish this the utility must have the experience necessary to effectively perform its responsibilities. This is a key factor in building the confidence of the public and in maintaining a good public image.

The utility must be responsive to the needs of its customers.

To ensure uninterrupted power in the long term, the organization must adequately plan for future customer needs and have the appropriate physical plant available to meet these needs.

AFFORDABLE POWER

An important objective is to provide power services to customers at fair and equitable rates. In its August 1983 recommendations, the NEB recommended that there should be two rate zones for the supply of electricity: a hydro zone rate and a diesel zone rate. However, the cost of power generation varies significantly by location. Rates are presently set on an individual community basis. As a result, the implementation of uniform rates will witness rate increases in some areas.

The NEB commented in its June 1985 hearing into the matters of the NCPC that there is an ongoing need for some form of subsidization in the North. This primarily results from the significant costs of diesel fuel for some locations and is essential to provide affordable power service to remote communities.

The utility must be capable of providing power services that address both of these issues:

- fair and equitable rates, and
- where necessary, to subsidize rates.

QUALITY OF PERSONNEL

The organization structure of the utility must ensure that effective initial and ongoing training programs exist for personnel. In the field, this requires the organization to be sensitive to the training of native peoples in both technical and non-technical areas.

In the regional and head offices, the utility must be able to attract skilled personnel. The essential disciplines include management skills, professional engineers, energy planners, operations personnel, accountants and administrative and clerical skills. In order to retain good staff, attention will need to be given to career development opportunities and personnel management.

The recruitment and retention of skilled senior resource personnel who would reside long term in the NWT may prove challenging; therefore, access, on a regular basis, to skilled senior utility resources in facilities planning, engineering design and financing capabilities is important.

OPERATING EFFICIENCY

In order to provide affordable power to customers, the utility will require proven and efficient operating procedures and policies. It will be expected to operate as an independent, self-sufficient operation. The organization must meet the requirements of its mandate in the most effective manner.

Sufficient cash flow is required to cover operating costs, as well as:

- o subsidize rates in identified areas;
- o provide for capital replacement and additions; and
- o protect against market "shocks", such as mine closures, low water levels and fires.

An essential part of operating efficiency is the ability to exercise the purchasing power required to obtain goods and services at the least possible cost.

REGULATION

The utility will be accountable to the Public Utilities Board (PUB), within the GNWT. This allows residents, directly affected by the utility's operation, to participate in the regulatory process. The utility should be subject to the regulation of its rates and its capital expenditures in order to assure the public that its rates are fair and that it sufficiently meets the requirements of its mandate.

At the same time, the utility is to be permitted to operate independently, in an efficient and effective manner.

nel. Selection of key personnel at the earliest date will assist with the management of transition and in implementation decision-making.

4. Formulate an initial letter of understanding. Discussions with NUL should follow from the decision on organization structure. Target date for presentation of the letter of understanding could be March 31, 1986.

5. Prepare communications strategy. Open communication is recommended with customers, NUL, NCPC and the federal government, explaining the new utility. This will display leadership and promote the understanding of actions. The first public statement should coincide with the public announcement of the Ministerial decision.

6. Announce, at the same time as the organization structure, the location of the utilities Head Office.

We believe the GNWT should take the initiative to ensure this timetable is met. It will establish direction and the leadership required leading for a successful and timely transition of the NWT utility.

BORROWING CAPACITY

Presently, the payment of interest costs on debt makes up approximately 15% of operating costs for the Northern Canada Power Commission (NCPC), based on information submitted in NCPC's proposal. Therefore, the ability of the utility to obtain the lowest cost of financing will significantly affect the costs of operation and the related revenue requirements.

Timely access to capital at preferred rates is another important factor that will enhance the ability of the utility to respond to regular maintenance and new development needs.

New assets purchased for the electric utility will, under the present terms and conditions, be owned by the GNWT. The borrowing capacity assessed by the lender will, under this scenario, be that of the GNWT. It is in the best interests of the GNWT to obtain, through negotiations, federal government backing of borrowings to obtain funds at a preferred rate.

Should joint ownership with private interests be considered in the future, then the borrowing capacity of the joint owner should be equal to or better than that of the GNWT.

ORGANIZATIONAL FLEXIBILITY

The utility must be responsive to present and future organization decisions of the GNWT, specifically to quickly accommodate possible separate, autonomous Eastern and Western areas within the GNWT, without adding an undue financial burden to ratepayers.

III - THE ALTERNATIVE ORGANIZATIONS

This chapter addresses the two alternatives proposed for the electric utility in order to perform its mandate. An assessment of the advantages and disadvantages of these alternatives follows in Chapter IV.

In the course of our work, cost estimates have been prepared on the basis of assumptions which have been described in our report. It is possible that some of the assumptions underlying our projections may not materialize. Nonetheless, we have applied our professional judgement in making assumptions, such that these constitute an understandable basis for estimates and projections. Beyond this, to the extent that certain assumptions do not materialize, then to that extent you will appreciate that our estimates and projections of achievable results will vary.

THE ROLE OF THE UTILITY (Mandate)

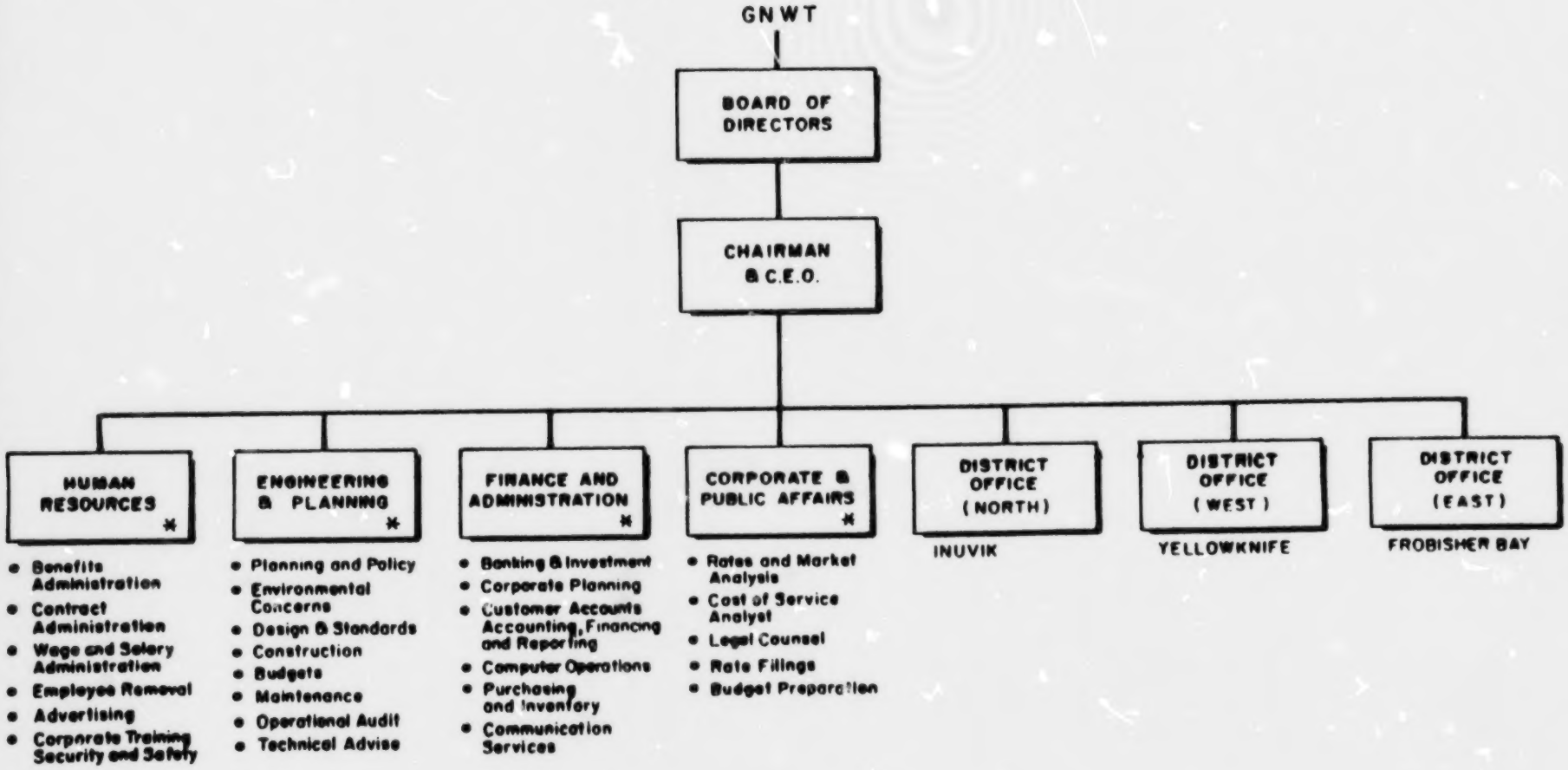
Ownership of the assets in the NWT currently held by the NCPC is expected to be be transferred to the GNWT effective March 31, 1987. The mandate of the NWT Electric utility will encompass the ownership, control, management and operation of the utility assets in the NWT when transferred. This includes the following responsibilities:

- the electric power generation, transmission and distribution in the NWT
- planning the future electrical energy needs of the residents of the NWT
- recommend a capital plan for Executive approval

EXHIBIT 3

FULL SERVICE UTILITY ALTERNATIVE

ORGANIZATION STRUCTURE AND PROPOSED EXECUTIVE COMMITTEE



* Functions at Head Office

- to recommend policies to be followed by the utility for Executive approval

- administration of the utility

- to set operating budgets and assume financial responsibility for the utility as a self-sufficient operation

- to operate and manage the heat, water and sewerage operations transferred from the NCPC.

This fundamental mandate of the utility and these responsibilities must be performed under the alternatives considered below.

FULL SERVICE UTILITY ALTERNATIVE

NCPC submitted a proposal, dated February 5, 1986, to the GNWT for the organization of a full service utility performing essentially the same functions as those presently performed by NCPC. This proposed organization proposal includes changes now being implemented to decentralize operation decision-making. To date, two District Offices are established (NWT East and West), with a third District Office proposed for NWT North in 1986.

Organization Structure

The organization structure of the proposed Executive Committee is shown in Exhibit 3, opposite. This committee is a senior decision-making forum dealing with "all significant matters impacting on the Commission's business affairs". The Head Office functions identified are:

- o Human Resources
- o Engineering and Planning
- o Finance and Administration (Comptroller)

- o Corporate and Public Affairs
- o Corporate Secretary/Senior Counsel.

For the three District Offices, there is a total of 196 personnel. This includes a District Manager, two Administration Services personnel and one Maintenance/Engineering Services personnel in each area.

Employment

NCPC currently employs over 100 personnel in its Edmonton Head Office. In the NEB public enquiries ending June 1985, NCPC allocated Head Office costs to the Territories based on wages and salary costs. For the NWT, this witnessed an allocation of 85% of the Head Office costs. This results primarily from two factors. First, the NWT has significantly more diesel power, which requires more operating staff; while the Yukon has a higher percentage of hydro generation that is connected by a transmission system. Secondly, the NWT has more direct retailing of services to customers than in the Yukon. This requires more staff for customer billing and related activities.

The same functions will be performed by the new organization. For purposes of this study, cost estimates for Head Office personnel are based on 80 to 85 personnel. The 80 to 85 personnel estimate was provided by the NCPC and is relatable to the 85% allocation of Head Office costs and NCPC's 1985 filings with the NEB.

It is stated in the NCPC proposal that positions in the new organization will be offered to current NCPC Edmonton employees. NCPC estimate that about 20 of the staff may, in fact, move north. NCPC's estimates for relocation costs and recruiting expenses are based on this assumption and for purposes of this document we have accepted their per-person cost estimate provided.

EXHIBIT 4

FULL SERVICE UTILITY ALTERNATIVE
PRELIMINARY COST ESTIMATES

	($000) 80-85 H.O. STAFF
ONE-TIME COSTS	
CAPITAL EXPENDITURES	
OFFICE LEASEHOLD IMPROVEMENTS [1]	300
WAREHOUSE COST [2]	700
OFFICE SUPPLIES, FURNITURE & EQUIPMENT [3]	350
COMPUTER, COMMUNICATIONS, VEHICLES [4]	350
	1,700
RELOCATION AND TRANSITION COSTS	
RECRUITMENT AND RELOCATION [5]	980
START-UP TRAINING [6]	320
TRANSITION OF MANAGEMENT AND ADMIN. FUNCTIONS [7]	900
CONTINGENCY	100
	2,300
TOTAL	4,000

ASSUMPTIONS

1. BASED ON $3,750 PER EMPLOYEE FOR LEASED PREMISES, SAME FOR BOTH ALTERNATIVES
2. BASED ON 8,000 SQ. FT. (EST) @ $80/SQ. FT. BUILDING COST, (PER DISCUSSION WITH CITY PLANNING PERSONNEL IN YELLOWKNIFE AND HAY RIVER), PLUS LAND
3. BASED ON $4,300 PER EMPLOYEE, (NUL PROPOSAL FIGURE)
4. ESTIMATE BASED ON LEASED COMPUTER COSTS, (NUL USED $300 K FOR TRANSMISSION FACILITIES IN YELLOWKNIFE TO A CENTRAL EDMONTON COMPUTER)
5. BASED ON 20 NCPC EMPLOYEES RELOCATING AT $7,500 EACH, PER GNWT AND RECRUITING COSTS OF $13,000 FOR REMAINING 60-65
6. BASED ON AN ESTIMATED $4,000 PER EMPLOYEE (SAME FOR BOTH ALTERNATIVES)
7. ESTIMATE BASED ON SIMILAR COSTS UNDER OTHER ALTERNATIVE

EXHIBIT 4-1

FULL SERVICE UTILITY ALTERNATIVE
PRELIMINARY COST ESTIMATES

RECURRING COSTS [1]	($000) 80-85 H.O. STAFF
SALARIES AND WAGES	3,875
SUPPLIES AND SERVICES	1,875
TRAVEL EXPENSE	450
TOTAL RECURRING	6,200

1. COSTS ARE BASED ON NCPC HEAD OFFICE COSTS STATED IN THE JUNE 1985 INQUIRY, APPENDIX K, PAGE 1 OF 10. SALARIES AND WAGES ARE CALCULATED AT 80% OF COSTS SHOWN BY NEB. THE WAGES ARE THEN ADJUSTED FOR GOVERNMENT INCENTIVES FOR RESIDENTS OF THE NWT, AVERAGING $6,400 PER PERSON PER YEAR. ALL OTHER COSTS ARE ASSUMED THE SAME.

The Head Office jobs created should stimulate spinoff employment. Using the estimate of 80 to 85 staff, employment could be increased by 35 additional jobs, to approximately 110 to 115 staff.

The cost of the direct Head Office jobs must be borne by the rate payers. This means the cost will be spread through the communities. Since the utilities mandate is for self-sufficiency, each cost must be considered for their impact on rates.

Transition and Recurring Costs

Exhibit 4, opposite, illustrates the one-time and recurring costs related to this alternative. The one-time costs consist of:

- obtaining a head office site
- office supplies, furniture and equipment
- computer, communications and vehicle costs
- recruitement and employee relocation costs
- start-up training costs, and
- costs for the transfer of management and administrative functions.

These costs are estimated at $4.0 million and will be incurred prior to the start-up of operations on March 31, 1987.

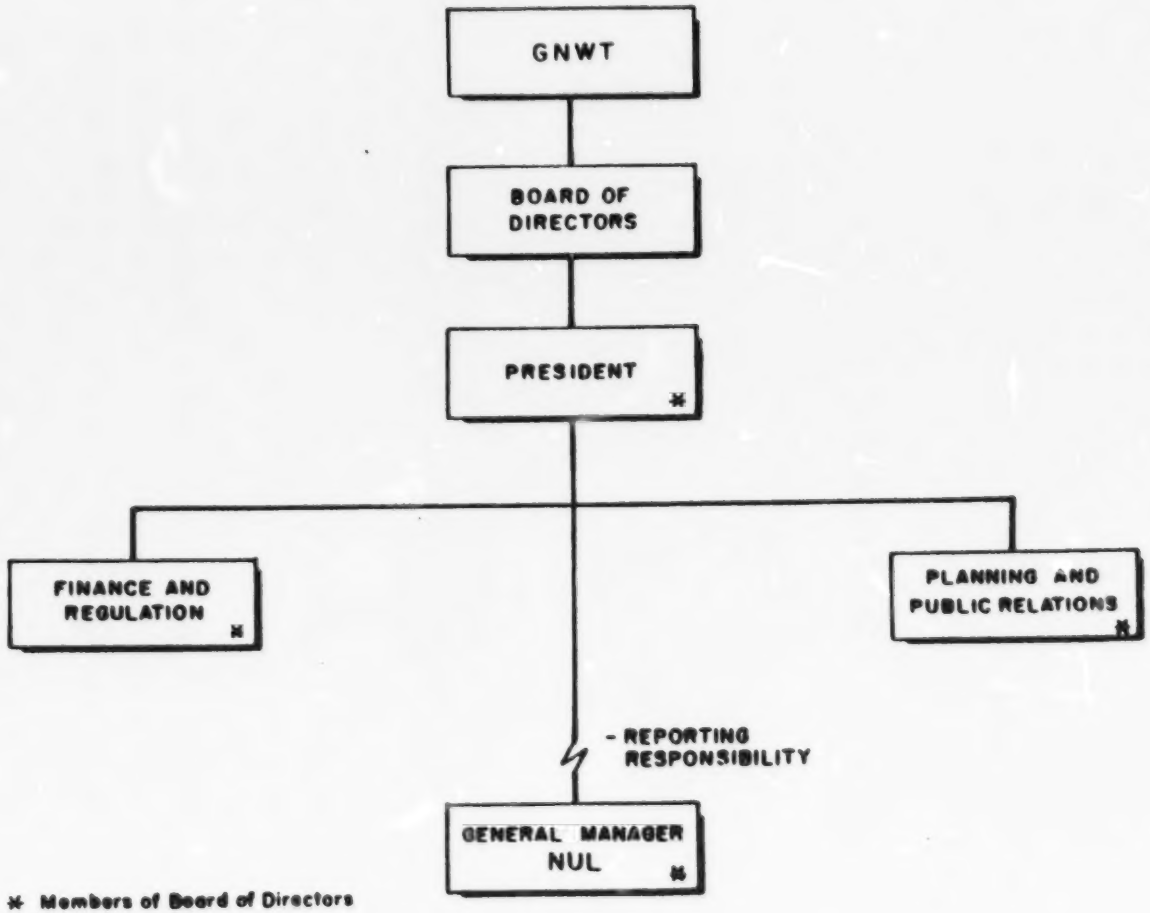
With approximately one year to accomplish transition, the relocation will require significant attention. Past experience has shown that there is a significant learning curve to starting up such an organization.

For head office costs except salary and wages, the full NCPC costs as identified in the 1985 NEB inquiry have been used in this study.

EXHIBIT 5

HOLDING COMPANY / CONTRACTOR ALTERNATIVE

ORGANIZATION OF THE HOLDING COMPANY



* Members of Board of Directors

Other potential members:

- Business Community
- Mining Industry
- Residential Consumer representatives

In summary, this alternative meets the mandate for the utility. With 80-85 Head Office personnel, the one-time costs are estimated at $4.0 million and recurring costs at $6.2 million. In the next chapter, the advantages and disadvantages of the NCPC alternative is examined.

HOLDING COMPANY/CONTRACTOR ALTERNATIVE

Under this alternative the assets currently held by the NCPC would be transferred to the GNWT. Northland Utilities Limited (NUL) has submitted a proposal for utility management services that will provide NUL with operating automony required to manage the assets. NUL will establish a head office in the NWT.

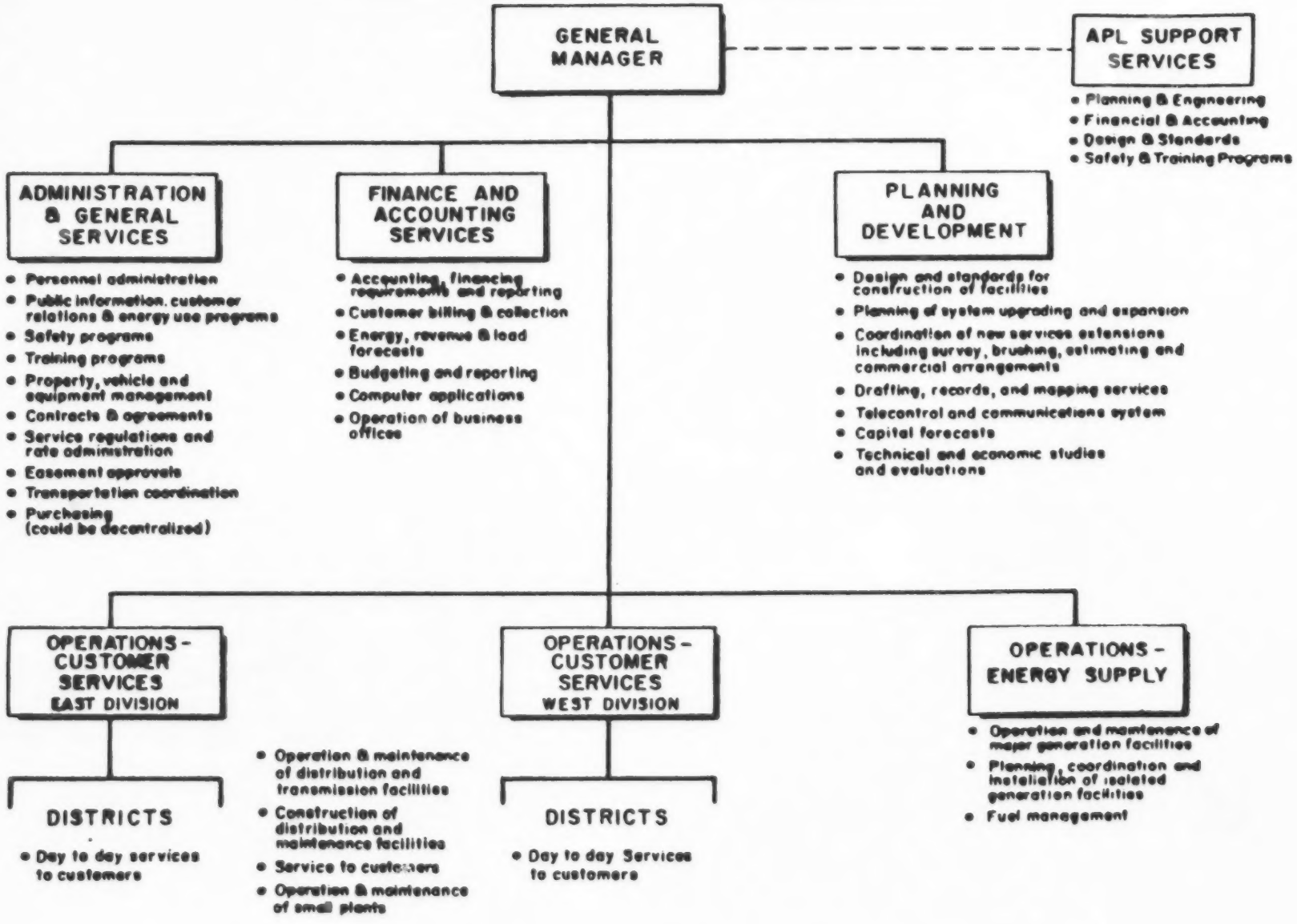
Organization Structure

As shown in Exhibit 5, opposite, the GNWT would establish a holding company, NWT Energy Corporation, which will hold the utility assets. The company would employ four staff (including one support staff) to perform the following role:

- manage, as owner, the utilities fixed assets
- monitor utility operations and approve planning and budgets
- formulate policy
- set subsidy levels
- present rates for PUB approval and assume financial responsibility for the utility

EXHIBIT 6

HOLDING COMPANY / CONTRACTOR ALTERNATIVE
NUL ORGANIZATION STRUCTURE


GENERAL MANAGER
APL SUPPORT SERVICES
• Planning & Engineering
• Financial & Accounting
• Design & Standards
• Safety & Training Programs
ADMINISTRATION & GENERAL SERVICES
• Personnel administration
• Public information, customer relations & energy use programs
• Safety programs
• Training programs
• Property, vehicle and equipment management
• Contracts & agreements
• Service regulations and rate administration
• Easement approvals
• Transportation coordination
• Purchasing (could be decentralized)
FINANCE AND ACCOUNTING SERVICES
• Accounting, financing requirements and reporting
• Customer billing & collection
• Energy, revenue & load forecasts
• Budgeting and reporting
• Computer applications
• Operation of business offices
PLANNING AND DEVELOPMENT
• Design and standards for construction of facilities
• Planning of system upgrading and expansion
• Coordination of new services extensions including survey, brushing, estimating and commercial arrangements
• Drafting, records, and mapping services
• Telecontrol and communications system
• Capital forecasts
• Technical and economic studies and evaluations
OPERATIONS - CUSTOMER SERVICES EAST DIVISION
DISTRICTS
• Day to day services to customers
• Operation & maintenance of distribution and transmission facilities
• Construction of distribution and maintenance facilities
• Service to customers
• Operation & maintenance of small plants
OPERATIONS - CUSTOMER SERVICES WEST DIVISION
DISTRICTS
• Day to day Services to customers
OPERATIONS - ENERGY SUPPLY
• Operation and maintenance of major generation facilities
• Planning, coordination and installation of isolated generation facilities
• Fuel management

- examine approaches to the future management of non-electrical utility assets (e.g., heat and sewerage plants).

The role of the contractor will be:

- for independent operation of the assets for electric power generation, transmission and distribution
- utility planning
- implementation of policy
- propose rates and identify financing requirements.

To perform these functions, NUL proposes the organization structure illustrated in Exhibit 6, opposite. The functions are:

- o Operations - Energy Supply
- o Operations - Customer Service
- o Planning and Development - Engineering Services
- o Finance and Accounting
- o Administration and General Services.

Under each function, a description of major activities is listed.

The organization structure proposed by NCPC and NUL for the operation and management of day-to-day utility operations are similar.

Employment

In this alternative, the contractor proposes to employ 35-40 personnel at the head office location. An additional four personnel will be required for

EXHIBIT 7

HOLDING COMPANY/CONTRACTOR ALTERNATIVE
COST ESTIMATES

	($000) ONE-TIME	RECURRING
NWT ENERGY CORPORATION[1]		
ONE-TIME COSTS		
PREMISES AND OFFICE SUPPLIES	100	
RECRUITMENT	50	
	150	
RECURRING COSTS		
HEAD OFFICE		300
NORTHLAND UTILITIES[2]		
ONE-TIME COSTS		
CAPITAL EXPENDITURES	1,200	
RELOCATION COSTS	700	
TRANSITION COSTS	850	
	2,750	
RECURRING COSTS		
HEAD OFFICE		4,600
OPERATING SAVINGS		
SUPPLIES AND SERVICES		(600)
TOTAL	2,900	4,300

NOTES:

1. COST ESTIMATES BASED ON STAFF SIZE OF 4 PERSONNEL
2. COST ESTIMATES PROVIDED IN NUL PROPOSAL FOR UTILITY MANAGEMENT SERVICES, JANUARY 1986

the GNWT holding company. This could have a "spin-off" for an additional 16 secondary jobs created, for a total job creation of 55-60. NUL propose to employ all current NCPC staff now residing in the NWT.

In addition to the head office personnel, Alberta Power Limited, NUL's parent company will provide support services equivalent to 15-man years of employment. This is proposed to ensure operations in the NWT are cost-effective. Some of the support services included in the proposal are:

- specialized technical and engineering
- financial, accounting and purchasing
- rate design
- design and construction standards
- computer processing
- customer information and public relation programs related to safety and conservation
- electrical planning services
- insurance and employee benefits
- specialized equipment and expertise for testing, operations and construction.

For this support, NUL propose to charge $1,850,000 as a management fee in the initial year of operation.

Transition and Recurring Costs

As shown in Exhibit 7, opposite, a cost estimate is presented for an NWT Energy Corporation holding company and NUL. Total one-time costs during the transition period are estimated at $2.9 million. Operating costs in the initial year for head office operations for both an NWT Energy Corporation and NUL are projected at $4.9 million. NUL stated in its proposal that operating savings as a result of such things as increased purchasing

power will save the utility $600,000 in the first year. Therefore, net recurring costs in year one are estimated at $4.3 million.

In the long term, NUL expects annual cost savings to be greater than those experienced in the first year. These will result from programs and procedures geared to increase the utility's cost-effectiveness. Also, NUL believes that improved planning and project management of asset additions will increase the level of service at the least rate to customers.

The Company

NUL has operated in the NWT for 35 years as an independent company providing power to customers. The company has been involved with the NWT Public Utilities Board since its inception and is familiar with its requirements. Northland is a subsidiary of Alberta Power Limited, which is owned by Canadian Utilities Limited. An affiliated company is the Yukon Electric Company, which has extensive experience in northern utility operation and management. Canadian Utilities Limited is an investor-owned Canadian company with assets over $2.4 billion.

EXHIBIT 8

EVALUATION OF ALTERNATIVES

Operating Criteria	Full Service Utility	Holding Company/Contractor
1. CLEAR MANDATE	- Yes, managed and operated in the NWT	- Yes, managed and operated in the NWT
2. EMPLOYMENT	- 80-85 direct, 35 "spin-off", 110-115 total jobs, concentrated near head office	- 39-44 direct, 16 indirect, 55-60 total jobs
	- Current NCPC employees resident in the NWT will be offered employment	- Current NCPC employees resident in the NWT will be offered employment
3. UNINTERRUPTED POWER	- Retain current service levels	- Incentive to maintain and, where possible, improve service
		- Ready access to expertise through parent company
4. AFFORDABLE POWER	- Subsidize rates, where necessary	- Subsidize rates, where necessary
		- Projected cost savings of $1.5 million in the first year
5. QUALITY OF PERSONNEL	- Less opportunity to attract skilled labour due to limited career development opportunities	- Corporate personnel resources can attract skilled people required: o Career development opportunities o Training
6. OPERATING EFFICIENCY	- Higher cost alternative: transition costs $4.0 million, initial operating costs $6.2 million	- Least cost alternative: transition costs $2.9 million, initial operating costs $4.3 million
		- Proven ability to efficiently manage utilities

EXHIBIT 8-1

EVALUATION OF ALTERNATIVES

Operating Criteria	Full Service Utility	Holding Company/Contractor
7. REGULATION	- Accountable to the PUB of the NWT	- Accountable to the PUB of the NWT - An established track record with PUB
8. BORROWING CAPACITY	- Costs of Funds may increase unless guaranteed by the Federal Government	- Potential for increased borrowing capacity through parent company of NUL in future, should NUL obtain a minority ownership position
9. ORGANIZATIONAL FLEXIBILITY	- Less flexible to change if an east and west division of the NWT occurs	- Provides flexibility to change if an east and west division of the NWT occurs

IV - EVALUATION OF ALTERNATIVES

The advantages and disadvantages of the two alternatives are assessed using the criteria for evaluation established in Chapter II under the nine operating requirements for the NWT Energy Corporation. Exhibit 8, opposite, summarizes the result of this assessment. The results are explained in detail below.

CLEAR MANDATE

Both alternatives meet the requirement for a clear mandate and result in the utility owned and operated in NWT.

EMPLOYMENT

The NCPC alternative promotes the economic development of the North, potentially providing 110 to 115 direct, indirect and induced jobs. This employment will be concentrated near the head office location and benefits that community. The cost of this employment, however, will be borne by the ratepayers in all communities.

The NUL alternative promotes economic development of the North by potentially providing 55 to 60 total jobs. Under this alternative, immediate job opportunities at the head office location could be 36 to 46 less than that projected in the NCPC proposal. This is primarily because an equivalent of 15 person-years of employment will be performed in Edmonton, from the corporate office, as support services.

Recommended alternative: NCPC using the employment criteria only.

UNINTERRUPTED POWER

The NCPC alternative is essentially the status quo with a head office in the NWT, we can expect that current service levels will be retained.

NUL, through the structure of the management services contract, could have a financial incentive to maintain and, where possible, improve service. The company has ready access to expertise through its parent company and affiliates. This expertise can be used to improve service levels.

Recommended - both alternatives would meet this criteria.

AFFORDABLE POWER

Both alternatives require the subsidization of rates, where necessary. In the holding company/NUL alternative, this responsibility would rest with the GNWT Holding Company.

The NUL proposal estimates that $1.5 million can be saved in the initial year of operations. This, if achieved, will lower the amount of subsidization required.

Under the NCPC alternative, head office costs of an estimated $6.2 million annually is not a significant reduction from current NCPC head office costs. However, these costs would now be spread over a small revenue base and may result increased rates to customers. However, these rates are currently subsidized in certain areas. This creates less uncertainty than cash flows from operations can cover costs, subsidized rates and provide for capital replacements and future additions.

Recommended alternative: holding company/NUL.

QUALITY OF PERSONNEL

Under the NCPC alternative, it is expected that about 20 NCPC head office staff would relocate to the North. This means that the NWT will need to recruit approximately 60 staff. Considering the smaller size of operation compared to other utilities, the utility may encounter difficulties attracting and retaining the skills necessary to perform the functions required.

Under the NUL proposal, there is increased opportunity to attract skilled personnel. This is because of the corporate personnel resources available, which offer the opportunity for increased career development through transfers within related companies. Also, NUL's proposal places a high priority on employee orientation and training.

NUL has demonstrated its sensitivity towards current NCPC employees and potential native employees. NUL proposes open and frank communication with employees to ensure the individuals understand the range and opportunities presented and that employees are aware of the benefits available, particularly concerning their pension plan.

Recommended alternative: holding company/NUL.

OPERATING EFFICIENCY

The NCPC alternative is the higher cost alternative, with transition costs of $4.0 million, and initial operating costs of $6.2 million. The utility would have no direct link with other large utilities to provide expertise where required and assist in smoothing the transition to the new organization. This may result in concerns by the public about the level of service that will be provided during the startup period. Considerable work must be done at an early date to ensure that policies, procedures and personnel are in place by the required startup date, March 31, 1987.

With the approximately one-year transition period to March 31, 1987, this alternative requires a greater learning curve and probably higher startup costs.

NUL proposes the least cost alternative, including transition costs of $2.9 million and initial operating costs of $4.3 million. In the past, the company has displayed a proven ability to efficiently manage utilities.

Through the support services available from the parent and affiliated companies, the appropriate expertise can be provided to ensure the utility runs efficiently. The company has proven procedures and policies necessary to provide a smooth transition and maintain a high level of service to customers. In its proposal, NUL has identified the transition steps required and related timing.

NUL, through the purchasing power of its affiliated companies, expects to achieve operating savings of $600,000 in the first year, which is 5% of supplies costs excluding fuel costs. The company is optimistic that these savings will increase over time. This is beneficial to customers because operating efficiencies will control rates. Other operating efficiencies include the implementation of common design and operating standards that will minimize training costs for maintenance personnel.

A perceived disadvantage to the NUL alternative is the "profit element" associated with private industry. Shareholders expect a return on investment. However, profits to NUL can come from reduced costs. Also, the regulation by the PUB provides assurance that the public's interests are considered. From the proposals presented, NUL provides an opportunity for ratepayers to get cost-effective service and provide a return for their shareholders.

Preferred alternative: holding company/NUL.

REGULATION

Under both alternatives, the utility would be accountable to the Public Utilities Board, (PUB) of the NWT. Under the full service utility alternative, a relationship would be established. NUL already has an established relationship with the PUB and is familiar with its requirements. This will contribute to a smooth transition of the utility to the GNWT.

Recommened: Each alternative meets this criteria.

BORROWING CAPACITY

Under both alternatives, the utility assets will be owned by the GNWT. It is in the best interests of the GNWT to have any borrowings financed by the federal government to obtain the lowest cost of funds.

NUL, through the borrowing capacity of the Canadian Utilities Group of companies may be able to obtain a lower cost of funds should future joint ownership of the utility be considered. Since interest costs are a significant portion of NCPC's current operating costs, these savings could be significant.

Recommended: Each alternative meets this criteria.

ORGANIZATIONAL FLEXIBILITY

If an East and West division of the NWT occurs, the full service utility alternative is less flexible to change due to the size and location of the head office. It could require a split of the head office into the two divisions and could result in an increased cost to ratepayers in both areas.

NUL recognizes the need for decentralized operations which enables timely response to customers' needs. An East and West divisional office will be

established. This provides flexibility to change if an East and West division of the NWT occurs in the future. In response to such a change, two area government utility holding companies could be estabished, with NUL reporting to each.

Recommended alternative: holding company/NUL.

V - RECOMMENDED APPROACH

The advantages and disadvantages of the two alternatives were assessed in the previous chapter. From this analysis, the holding company/contractor alternative is preferred. We therefore recommend that the GNWT enter into discussions with NUL and their parent company, Alberta Power Limited, to obtain a Letter of Understanding for a management services contract for the utility. We believe this provides the best opportunity to provide cost-effective service to residents of the NWT and provide a cash flow base to cover:

- operating costs
- subsidized rates
- capital requirements, and
- market shocks.

The main reasons for recommending the GNWT Holding Company/NUL alternative are summarized below:

- provides employment opportunity in the North that will benefit a concentrated area, yet be least costly to communities who must bear the cost

- displays a proven ability to efficiently manage utilities North of 60° and has the greatest potential to extract the skills required through proven training and career development opportunities with affiliated utilities

- provides expertise through its affiliated companies for effective operations, planning and management of the utility

EXHIBIT 9

COMPARISON OF ALTERNATIVES

	($000) HOLDING CO/ NUL	FULL SERVICE 80-85
EMPLOYMENT		
. DIRECT (PEOPLE)	39-44	80-85
. SPIN-OFF (PEOPLE)	16	35
TOTAL	55-60	115-120
PRELIMINARY COSTS		
ONE-TIME COSTS	$2,900	4,000
RECURRING COSTS	$4,300	6,200
RECURRING COSTS AS A % OF TEST YEAR, FROM NEB, JUNE 85 ($6,578)	64%	94%
(NEB ALLOCATION OF H.O. COSTS TO NWT 85%)		

- provides a better opportunity for affordable power through operating efficiencies, with expected cost savings of $1.5 million in the initial year of operations

- has an established positive track record with the PUB

- can offer bargaining strength for negotiation with the Federal Government

- provides an effective and timely transition plan for action on the transfer of operations

- has timely access to capital at a reasonable cost should this be necessary under an expanded corporate ownership program.

Exhibit 9, opposite, summarizes the employment and preliminary cost information under the two alternatives. In addition to the qualitative reasons stated above, the holding company/NUL alternative is also less costly in both the transition period and on a recurring basis.

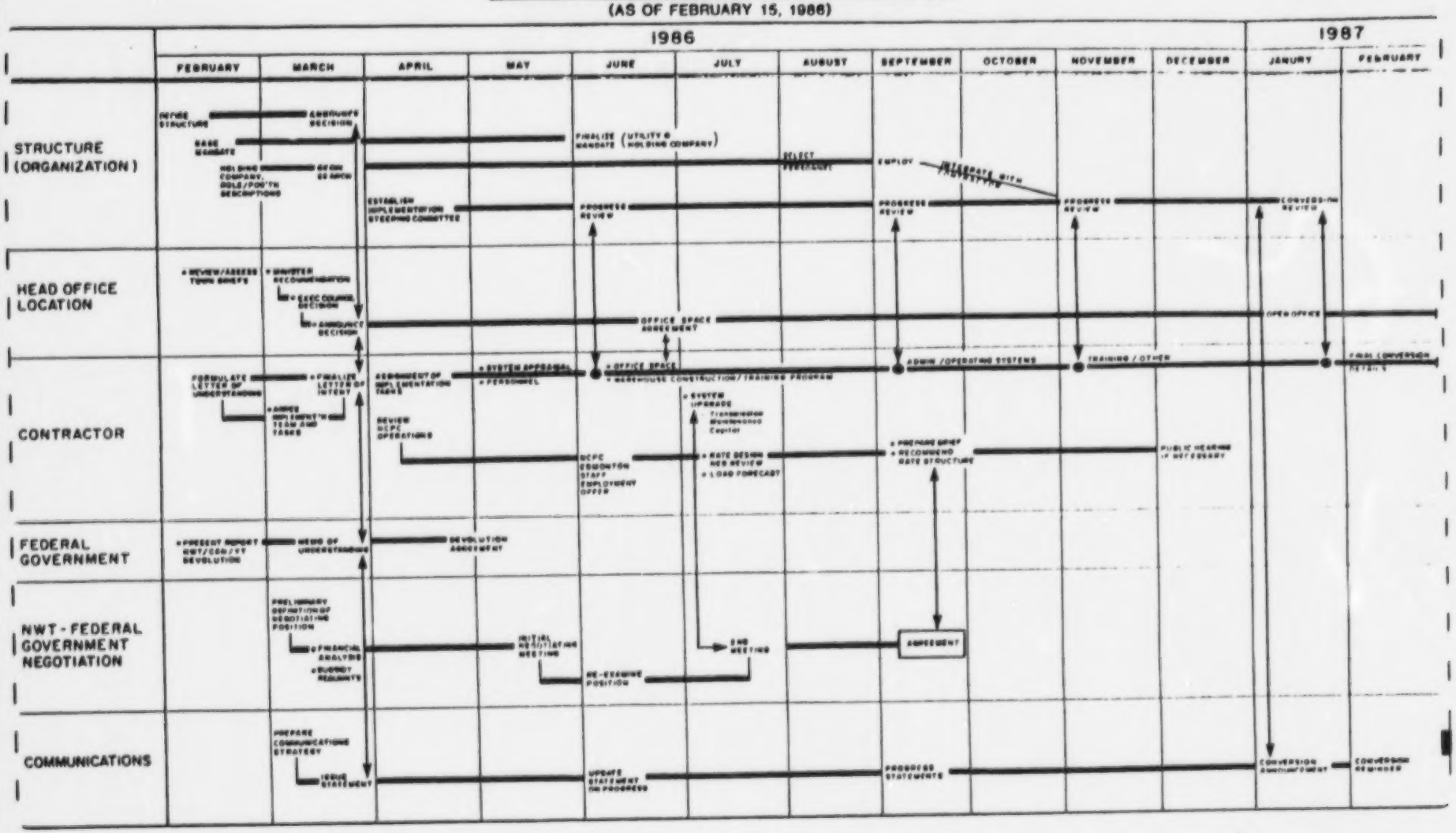
We believe that this alternative meets the key requirements of the utility, is economic, and is geared to improving the service to users.

EXHIBIT 10

GOVERNMENT OF NORTH WEST TERRITORIES

ELECTRIC UTILITY CONVERSION TASKS

(AS OF FEBRUARY 15, 1986)



VI - ACTION STEPS TO BE TAKEN

ACTION PLAN AND TIMING

A smooth transition and successful transfer of operations and management of current NCPC activities is essential. The following action plan and suggested timing indicate the main tasks to be accomplished. Exhibit 10, opposite, identifies by major area of interest, the tasks known at this time which need to be accomplished for transition on March 1, 1987. Tasks requiring immediate attention include:

1. Ministerial decision on the organization structure should be made as soon as possible, with a public announcement targetted for March 31, 1986.

2. Establish a base mandate for the utility. This will be initiated in February, 1986, allowing for finalized presentation in June, 1986. The base mandate, prepared at this time, provides direction for implementation.

3. Define the holding company role, responsibilities and authorities, together with position descriptions for Holding Company personnel. Selection of key personnel at the earliest date will assist with the management of transition and in implementation decision-making.

4. Formulate an initial letter of understanding. Discussions with NUL should follow from the decision on organization structure. Target date for presentation of the letter of understanding could be March 31, 1986.

5. Prepare communications strategy. Open communication is recommended with customers, NUL, NCPC and the federal government,

explaining the new utility. This will display leadership and promote the understanding of actions. The first public statement should coincide with the public announcement of the Ministerial decision.

6. Announce, at the same time as the organization structure, the location of the utilities Head Office.

We believe the GNWT should take the initiative to ensure this timetable is met. It will establish direction and the leadership required for a successful and timely transition of the NWT utility.